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GENERAL

1. COCOM unlikely to accept controls over pharmaceuticals:

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COCOM is unlikely to approve American-proposed controls over exports of pharmaceuticals to the Orbit, according to the American delegate. He believes the opposition springs from domestic political considerations based on humanitarian grounds and possibly from trade requirements.

The American proposal for an interim suspension of all export licenses for pharmaceuticals has been rejected. Britain, however, is now prepared to continue its controls on pharmaceutical exports to China for a limited period and West Germany is willing to reduce its shipments.

Comment: Pharmaceuticals of American and Western European origin continue to move in large quantities both to China and the rest of the Soviet bloc. Britain had previously stated that it was abandoning controls on pharmaceuticals because of the lack of similar restrictions by other COCOM participants.

2. Moscow Embassy comments on Stalin-Reston exchange:

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The American Embassy in Moscow considers that Stalin's answers to the questions of New York Times correspondent James Reston may have been designed to stimulate speculation on Soviet intentions. The Embassy points out that while interpretative stories by foreign correspondents initially were neither delayed nor censored, subsequent dispatches are being censored, particularly when implying propaganda motivation.

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The Embassy notes that Soviet press coverage does not indicate any change in Soviet policy toward real negotiation. The statement on terminating the Korean war is the only one worthy of exploration.

Some foreign diplomats in Moscow attach importance to the answers on the assumption that the Kremlin considered the questions semiofficial, according to the Embassy. The Finnish, Burmese and Iranian representatives seized on the statements as indicating a Soviet desire to relax tension and possibly reach a settlement. The Italian Ambassador was even more emphatic in this opinion, believing that the USSR has previously created impasses on many questions for the purpose of reaching a single over-all settlement. The French Ambassador is more skeptical but feels that the Kremlin, with President-elect Eisenhower's background in mind, may be tempted to try for a "realistic world division on military lines."

FAR EAST

3. Comment on Peiping's Five-Year Plan announcement:

Peiping's announcement on 27 December of a "Five-Year National Construction Plan" for China confirms previous reports from unofficial sources that Communist China is about to inaugurate its first long-range economic development plan on a national scale. Although the plan is less comprehensive than those of other Orbit countries, its formulation at this time is indicative of Peiping's intent to pursue ambitious economic goals despite the possibility of continued involvement in the Korean hostilities.

There is no indication in Peiping's statement that the new burdens of the Five-Year Plan will incline Communist China to a more compromising stand in the Korean truce negotiations. On the contrary, the announcement boasts that China can undertake economic construction while engaged in the Korean war and "come out victorious in both fields."

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NEAR EAST - AFRICA

4. Britain prepared to break off Sudan discussions if necessary:

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The British Government insists that the Governor General of the Sudan retain emergency powers and responsibility for the southern Sudan. It maintains that the degree of Sudanization of the local administration should not be the principal factor in deciding on self-determination in three years.

The British Ambassador in Cairo has been instructed to regard Egyptian refusal to accept these points as justification for breaking off negotiations.

Comment: Despite these instructions, London remains optimistic that satisfactory compromises can be worked out. Cairo, however, has stated that it will make no further compromises and would be willing to return to the previous Egyptian position of the "unity of the Nile valley."

5. Sudanese Government alarmed by troubles in south:

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According to the US Liaison Officer in Khartoum, the Sudanese Government is endeavoring to persuade the Mahdi, the leading Sudanese political figure, to accept the British position that the Governor General must retain special powers for the primitive south.

The Sudanese Government fears that a serious situation may develop in the south because of opposition created there by visiting northern Sudanese journalists.

Comment: The current trouble in the southern Sudan is a direct result of Egyptian and British differences on the future position of the region under Sudanese self-government. Because of the stalemate in the Anglo-Egyptian negotiations, chiefly over the

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problem of the southern Sudan, General Nagib and Colonel Nasr, an influential High Committee member, have publicly threatened to end the discussions.

6. Greece to avoid commitments in defense talks with Yugoslavia:

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[Redacted]

Greece hopes to ascertain Yugoslav plans for defending southern Yugoslavia during the current Yugoslav-Greek defense talks in Athens, but will avoid making any commitments, according to Defense Minister Kanellopoulos. If the Yugoslavs seek commitments, the Greek representative intends to insist that the question must be studied by his government in consultation with its allies.

Comment: The Turkish-Yugoslav defense talks held recently in Belgrade stalled on the subject of detailed planning. Although all three governments have asserted that they are willing to proceed, the Greek attitude suggests that, aside from any position taken by Yugoslavia, the current talks will not materially advance definite defense planning for the area.

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